Q3 2026 Newsletter

Valuation Insights, Market Developments & Regulatory Updates

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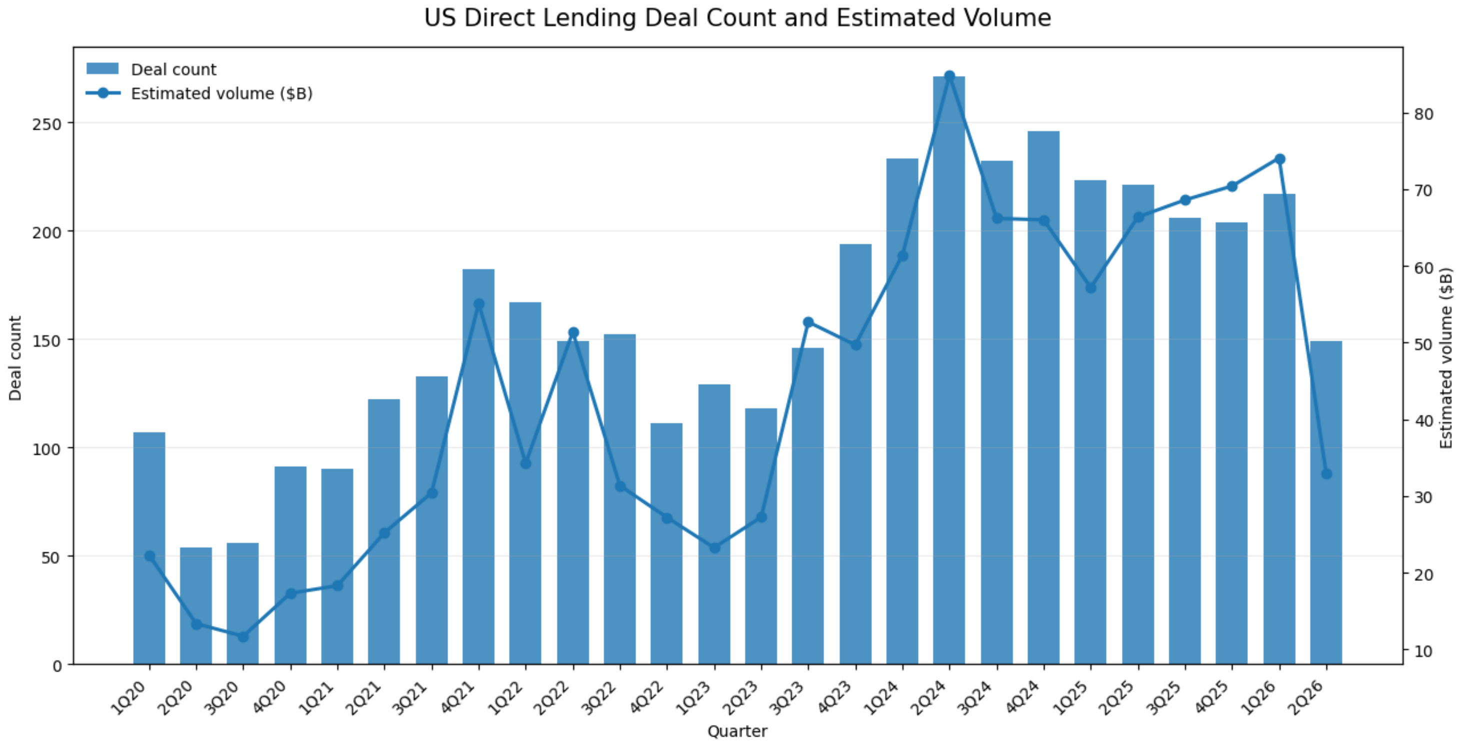
1 Private Credit Market Update

Direct-lending activity declined sharply

Direct-lending activity declined significantly in the Q2 2026, with approximately $33 billion of financing completed across 149 transactions, compared with $74.1 billion across 217 transactions in the previous quarter. Q1 2026 had had represented the strongest level of activity in two years. U.S. private-equity deal value also fell to $177 billion in Q2 2026, a 38% quarter-over-quarter decline and the lowest quarterly level in two-and-a-half years.

LBO financing was particularly subdued. Estimated direct-lending LBO volume totaled $32.1 billion during the first half of 2026, 16% below the prior-year period, while transaction count declined 15% to 94. The broadly syndicated loan market accounted for the majority of LBO financing volume, reversing the recent trend in which private credit had gained share in larger transactions.



Source: PitchBook | LCD; data as of June 30, 2026.

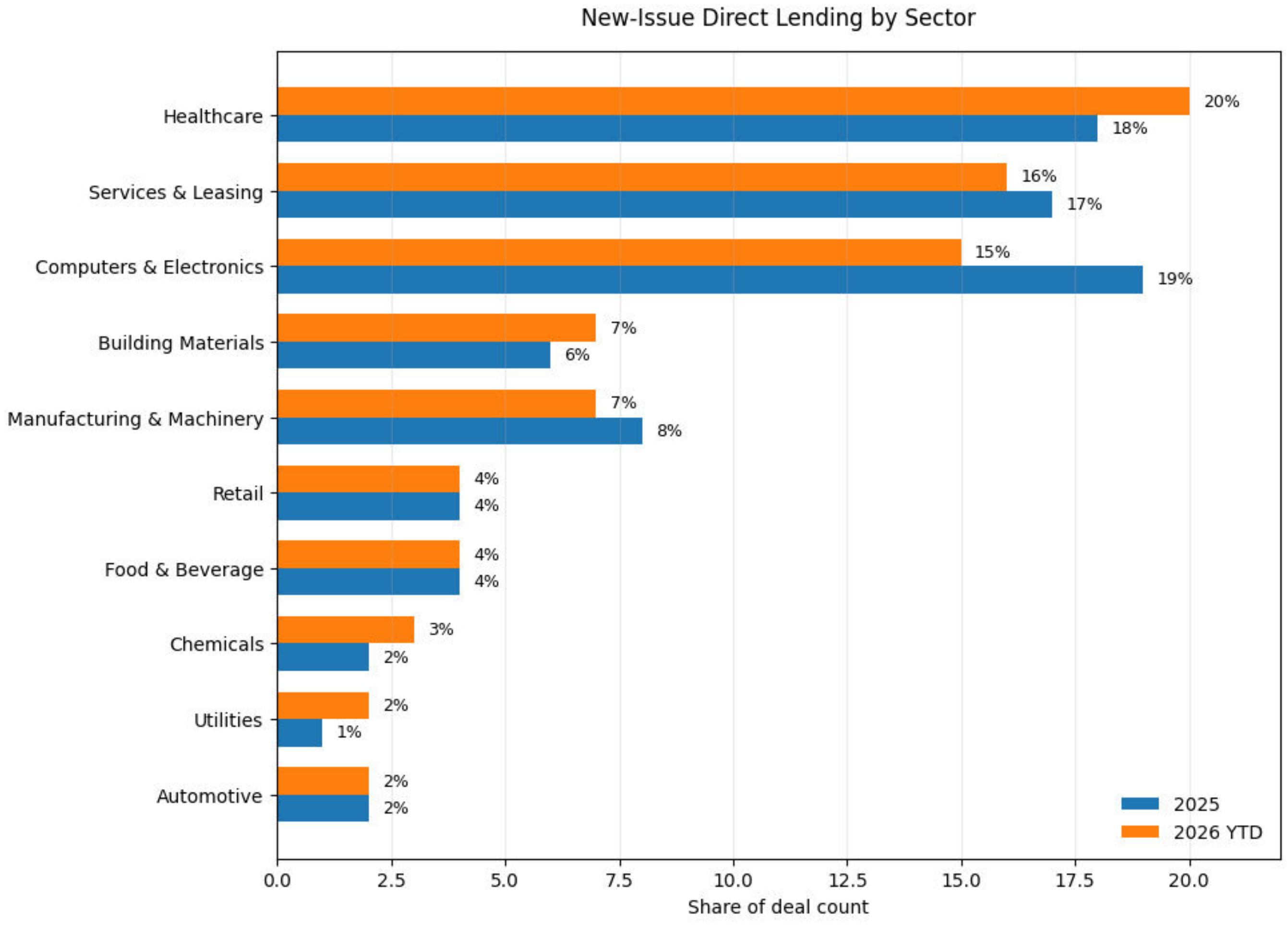
1

Private Credit Market Update

Reassessment of software exposure and shift to “real economy” sectors

Private credit activity is shifting away from software to sectors perceived as more resilient. Market data indicates a broad reduction in software exposure over the prior 12 months, with 21% reporting significant reductions and 6% exiting new lending to the sector entirely. Only 9% increased exposure to take advantage of market dislocation.

At the same time, healthcare surpassed technology as the largest sector by new direct-lending deal count during the first half of 2026. Building materials, retail, food and beverage, chemicals, automotive and utilities also increased their shares. The data points to greater selectivity toward software companies and stronger demand for borrowers with recurring or essential demand, defensible business models, and lower exposure to AI-related disruption.



Source: PitchBook | LCD; data as of June 30, 2026.

2

Private Credit Market News

BlackRock TCP Capital: private credit valuation under scrutiny

BlackRock TCP Capital Corp. (“TCPC”), a publicly traded BDC managed by BlackRock, has been subject to increased scrutiny regarding the valuation of its private credit investments following substantial portfolio markdowns, investor litigation, and a reported federal investigation.

In January 2026, TCPC reported a significant decline in its estimated NAV, falling from $8.71 per share at September 30, 2025 to approximately $7.07 at December 31, 2025, a decrease of approximately 19% in the quarter. In February 2026, investors filed a securities class action alleging, among other matters, that certain portfolio investments had not been written down sufficiently or on a timely basis, which allegedly resulted in understated unrealized losses and an overstated NAV. TCPC has stated that it believes the claims are without merit. The valuation issue received additional attention in May 2026 following reports that federal prosecutors were examining TCPC’s private credit valuation practices. No finding of wrongdoing has been announced.

On August 6, 2026, TCPC announced a transaction involving approximately $523 million of loans across 78 portfolio companies, representing approximately 48% of the fair value of its debt portfolio immediately prior to the transaction. The investments were transferred into a continuation vehicle, with Pantheon-managed funds acquiring a 95% interest and TCPC retaining 5% interest.

The base purchase price was established at approximately 95% of the investments’ gross fair value as of December 31, 2025, subject to customary adjustments. However, after incorporating more recent carrying values and transaction-related adjustments, however, TCPC estimated that the transaction would reduce NAV by approximately $57 million, or $0.68 per share, equivalent to approximately 10.4% of its NAV as of June 30, 2026.

The TCPC matter highlights a broader challenge in private credit valuation: how quickly deteriorating borrower performance should be reflected in fair value when observable market transactions are limited. Under ASC 820, valuations should reflect market-participant assumptions as of the measurement date. The case therefore underscores the importance of regularly reassessing credit spreads, expected cash flows, recovery assumptions, enterprise-value coverage, and other key valuation inputs as borrower conditions change.

3

Valuation Case Spotlight:

Star Equity Fund LP v. Firsthand Capital Management, Inc. (error versus fraud)

On March 30, 2026, the U.S. District Court for the District of Maryland dismissed the remaining securities fraud claims in *Star Equity Fund, LP* (the " Plaintiff") *v. Firsthand Capital Management, Inc*. (the "BDC") , a case involving allegations that the BDC's investment adviser, valuation firm, and directors knowingly overstated the fair value of several portfolio investments.

The plaintiff, the BDC's largest shareholder, alleged that **inflated valuations** of three significant investments caused the fund to publish **overstated net asset values**. Most of the investments were classified as **Level 3 assets under ASC 820**, meaning their valuations relied heavily on unobservable inputs and significant judgment.

The court treated the reported valuations and NAVs as statements of opinion. To establish fraud, the plaintiff therefore needed to show not only that the valuations were inaccurate, but also that the defendants did not honestly believe the NAVs were accurate or lacked a reasonable basis for reaching their valuations.

The court found that the complaint failed to meet this standard. It noted that the defendants had progressively reduced the value of certain investments as adverse developments emerged, eventually writing one investment down to zero. The court also found **insufficient details to conclude that the valuation methodologies applied to the other investments were unreasonable**, even where the portfolio companies differed materially from the public company comparables used.

Although the defendants may have had financial incentives to maintain higher valuations, the court concluded that the more compelling inference was that they were **making good-faith judgments in a highly subjective and uncertain valuation environment.**

3 Valuation Case Spotlight (continued)

Valuation takeaways

An inaccurate valuation is not necessarily a fraudulent one.

For difficult-to-value Level 3 investments, reasonable professionals may reach imperfect conclusions without acting dishonestly.

WHAT SUPPORTS A DEFENSIBLE VALUATION?

1. **Respond to deterioration promptly**
   Incorporate adverse financial and operational developments as they emerge.
2. **Support key assumptions**
   Clearly document the methodologies, inputs, and judgments underlying the valuation.
3. **Adjust comparables appropriately**
   Reflect material differences when public company comparables are not directly comparable.
4. **Maintain transparent governance**
   Communicate significant valuation judgments clearly to the board and valuation committee.
5. **Reassess as facts change**
   Update valuations as new information becomes available.

BOTTOM LINE Strong contemporaneous documentation can demonstrate that a valuation reflected a reasonable, good-faith judgment based on information available at the measurement date.

4 Tax Rate in WACC

What is the real value of the tax shield?

Standard WACC treats interest as tax deductible:

After-tax cost of debt

= Pre-tax cost of debt × (1 – Tax rate)

In practice, however, the appropriate tax rate is not always the company's statutory corporate rate or the effective rate reported in its latest financial statements. The relevant question is more specific:
What tax benefit is the company reasonably expected to realize from an incremental dollar of interest expense?

Marginal Tax Rate versus Effective Tax Rate

For WACC purposes, the starting point is generally a **forward-looking marginal tax rate**. This represents the tax rate applicable to incremental taxable income or deductions.
By contrast, the effective tax rate reported in the financial statements is calculated by dividing tax expense by pre-tax accounting income. It may be affected by: permanent nondeductible expenses, tax credits and incentive, stock-based compensation, etc.
As a result, a company's latest effective tax rate may not represent the long-term tax benefit associated with interest expense.
For a profitable U.S. corporation, the analysis commonly begins with the 21% federal corporate income tax rate and then considers applicable state and local income taxes. State taxes should not generally be added mechanically to the federal rate because state income taxes may reduce federal taxable income.

Combined tax rate example

Federal 21% + State 9% × (1–21%) = 28.11%

Because state tax is generally deductible for federal income-tax purposes.

4

Tax Rate in WACC (continued)

Can the company actually use the tax shield?

The standard WACC formula implicitly assumes that the interest deduction provides a current tax benefit. This assumption may not hold for companies with:

- Continuing operating losses;
- Significant net operating loss carryforwards;
- Limited taxable income;
- Substantial interest expense relative to earnings; or
- Restrictions on the deductibility of interest.

A loss-making company may incur interest expense without receiving an immediate tax benefit. The deduction may instead increase a net operating loss or create an interest carryforward that can only be used in a future period.

The tax shield may therefore be:

1. Immediately realizable, producing a current reduction in cash taxes;
2. Deferred, producing a lower present-value benefit; or
3. Unusable or permanently disallowed, producing little or no tax benefit.

The distinction is important. Applying a full statutory tax rate to the cost of debt may understate WACC when the associated deductions are unlikely to generate near-term tax savings.

1

Current benefit

Profitable taxpayer with sufficient taxable income: the full marginal tax shield may be supportable.

2

Deferred benefit

Deduction is carried forward or used later: the tax benefit exists, but its present value is lower.

3

Limited / uncertain benefit

Losses, permanent disallowance or structural limits may require a reduced tax-shield rate or APV.

5

FASB Proposes New Fair Value Rules

Contractual sale restrictions to be reflected in equity security valuations

On July 1, 2026, the Financial Accounting Standards Board (FASB) issued an Exposure Draft proposing amendments to Topic 820 (Fair Value Measurement). The proposal applies to investment companies as defined under Topic 946 and introduces a targeted exception: the requirement to consider contractual sale restrictions when measuring the fair value of equity securities. Stakeholder comments were due by July 17, 2026 (File Reference No. 2026-ED300).

The problem the proposal aims to solve:

Under current rules, a contractual sale restriction such as a lock-up agreement is considered a characteristic of the entity holding the security, not of the security itself: as a result, it does not affect fair value, which is measured at the market price of the unrestricted security. Stakeholders have pointed out that this approach, confirmed by Update 2022-03, produces valuations that do not reflect economic reality. For investment companies, the effects are particularly significant:

- **Overstated NAV**: Net Asset Value does not reflect the value that market participants would place on restricted securities.
- **Distorted performance and fees**: performance reporting and management fee calculations are affected.
- **Disparities among shareholders**: different outcomes for purchasing, redeeming, and remaining shareholders.

The issue has grown more significant because companies are staying private longer and going public at larger valuations, amplifying the economic impact of lock-up restrictions. An agenda request submitted in April 2026 also argued that Update 2022-03 conflicts with certain regulatory requirements; the Board added the project to its technical agenda in May 2026.

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FASB Proposes New Fair Value Rules (continued)

What changes, and for which assets?

1 Entities in scope:

The proposal applies only to investment companies within Topic 946. For all other entities, including operating companies holding equity investments, the existing guidance remains unchanged and is relocated to paragraph 820-10-35-36BB. Although some Board members supported a broader amendment, they favored a narrower and faster solution.

2 Assets in scope:

The proposal covers equity securities measured at fair value that are subject to contractual sale restrictions. These include lock-up agreements, market standoff agreements, and similar restrictions contained in separate shareholder agreements rather than in the documents governing all holders of the stock class.

3 What is excluded:

The proposal excludes all other asset classes. It also excludes securities whose restrictions are already reflected in another arrangement, such as shares pledged as collateral for a borrowing. The Board limited the project to equity securities while asking whether other restricted assets should be addressed separately.

4 Legal and regulatory restrictions:

Restrictions already included in the unit of account, such as those affecting unregistered private placement shares, remain unchanged because they are already treated as characteristics of the asset and reflected through a discount. The proposal therefore reduces the inconsistency between these restrictions and contractual sale restrictions for investment companies.

5 No new definition:

The Board chose not to define “contractual sale restriction” because entities already identify these restrictions for disclosure purposes, and a new definition could create unintended consequences outside the proposal’s scope.

6 Measurement:

Investment companies would be required to apply a discount reflecting the compensation market participants would demand for being unable to sell the security during the restriction period. The requirement applies regardless of whether the restriction is viewed as a characteristic of the holder or the security. The Board rejected an optional approach because it could create inconsistent valuations and rejected a separate liability because the restriction does not meet the accounting definition of a liability.

5 FASB Proposes New Fair Value Rules (continued)

Key information for preparers

- **New disclosure:** amended paragraph 820-10-50-6B adds a fourth item for investment companies, the amount of the discount attributable to contractual sale restrictions included in the fair value measurement, alongside the existing requirements to disclose the fair value of the restricted securities, the nature and remaining duration of the restrictions, and the circumstances that could cause them to lapse. The pending content extends the same disclosure to interim reporting periods.
- **Aggregation**: where multiple restricted holdings exist, preparers should apply the judgment framework in paragraph 820-10-50-1D to decide how much to aggregate or disaggregate. Question 4 asks investors explicitly whether a single aggregate discount figure would still be useful for this decision, and asks preparers to quantify the cost of producing it.
- **Transition**: prospective application to all equity securities, including those subject to restrictions already in effect at the date of adoption. This is a change from Update 2022-03, which allowed investment companies to grandfather existing restrictions; the Board concluded that grandfathering would reduce comparability and could force a fund to apply two measurement models simultaneously.
- **Earnings impact:** any adjustment arising on first application is recognized in current-period earnings on the date of adoption, and the amount of that adjustment must be disclosed in the period of first application.
- **Early adoption:** permitted, on any date on or after the issuance of a final Update, for financial statements not yet issued or made available for issuance — with prospective application from the adoption date rather than from the start of a reporting period.
- **Effective date**: not yet set.
- **Expected cost**: the Board does not anticipate significant costs, on the basis that investment companies already have experience estimating the effect of sale restrictions on fair value.

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2026 ASA International Conference

October 4–6, 2026 • Fort Worth, TX

Registration Link

BlueVal is pleased to sponsor and participate at the 2026 ASA International Conference (ASAIC), which will take place October 4–6 in Fort Worth, Texas. The event will focus on technological innovation, artificial intelligence (AI), evolving professional standards, regulatory developments, and changing market conditions.

Key conference topics include:

- AI, ethics, and professional standards
- Private credit and illiquid investment valuation
- Complex securities and option-pricing models
- Private equity and secondary-market transactions
- Intangible asset valuation
- Tax, regulatory, and fair value developments
- Professional judgment and valuation defensibility

Meet the BlueVal team at ASAIC 2026. Come to our stand and/or reach out to us to arrange a meeting:
please contact Lorenzo Paci lpaci@blueval-global.com

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Forensic and Valuation Services Conference

November 4–6, 2026 • National Harbor, MD

AICPA

Registration Link

BlueVal looks forward to attending the 2026 AICPA Forensic and Valuation Services Conference, which will take place November 4–6 in National Harbor, Maryland, as well as online. The program will address key issues across valuation, forensic accounting, litigation support, technology, and high-scrutiny financial engagements.

BlueVal will present a session on “**Carried Interest in Fair Value Measurement**” on November 6.

Key conference topics include:

- Litigation, disputes, and expert testimony
- AI, technology, and advanced data
- Communicating complex financial conclusions clearly and persuasively
- Valuation in a high-scrutiny environment
- Market volatility, tax pressure, audits, and hindsight review
- Talent development and future-ready forensic and valuation practices

Meet the BlueVal team at AICPA Conference 2026. Reach out to us to arrange a meeting:
please contact Lorenzo Paci lpaci@blueval-global.com

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Valuation20 Summit & Conference 2026

November 6–8, 2026 • Washington, D.C.

Registration Link

BlueVal will be represented at the 2026 Valuation20 Summit & Conference, which will take place November 6–7 in Washington, D.C. The conference will explore global valuation challenges, regulatory developments, technology and AI, intangible assets, infrastructure, and the role of valuation in financial markets and governance.

Antonella Puca, Partner at BlueVal, will moderate the session **"Business Valuation & Intangible Assets: Current Challenges and Trends"** on November 7.

Key conference topics include:

- Global regulatory issues affecting valuation
- Current valuation challenges from the perspective of professional valuation organizations
- AI and global technology trends shaping the profession
- Business valuation and intangible assets
- Real estate risk, resilience, and global change
- Infrastructure and development funding
- Valuation implications of geopolitical developments
- Data-center development and infrastructure challenges

Meet the BlueVal team at V20 Conference 2026. Come to our stand and/or reach out to us to arrange a meeting:
please contact Lorenzo Paci lpaci@blueval-global.com

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19th Annual International Business Valuation Conference

November 19–20, 2026 • Berlin, Germany

Registration Link

BlueVal will be at EACVA's 19th Annual International Business Valuation Conference, taking place November 19–20, 2026 in Berlin, Germany. The conference brings together valuation professionals from across Europe and internationally to discuss current developments shaping the profession, with dedicated tracks covering artificial intelligence, digital assets, business valuation methodologies, financial reporting, infrastructure, and evolving market practices.

BlueVal will present the session **"Valuing Digital Tokens: Intrinsic Value, Fair Value, Lock-Ups, and SAFTs"** on November 19.

Key conference topics include:

- Digital asset and token valuation, including methodologies, market data, and tokenomics
- Business valuation methodologies, DCF analysis, cost of capital, and marketability adjustments
- Machine learning and AI-driven approaches to relative valuation and risk assessment
- Financial reporting developments and their implications for valuation
- Infrastructure valuation and private-market investment analysis
- Transaction-related valuation, private equity, and strategic buyer approaches
- European economic conditions, investment, productivity, and evolving valuation standards

Meet the BlueVal team at EACVA Conference 2026. Come to our stand and/or reach out to us to arrange a meeting:
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BlueVal

BlueVal is a U.S.-based specialist valuation firm with a focus on business and portfolio valuation and on servicing the alternative investment community. We have deep expertise in managing audit and tax-related valuations and we work closely with our clients to meet their transaction, audit and tax compliance needs.

BlueVal is a member of the International Valuation Standards Board. Our partners are active members of the valuation profession, with representation on the AICPA, CFA Institute, several CFA local societies, the American Society of Appraisers and EACVA, among others.

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- Valuation of Interests in Complex Capital Structures

For questions regarding this report or our services, please contact:

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Roberto Marsella has collaborated in the preparation of this Newsletter

BlueVal has representation in Forbes 2025 America's Top CPAs for Valuation and 2026 America's Best-in-State CPAs for New York State listings

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